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Cotton and Products

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Report Highlights:

Post puts the 2001/02 cotton crop at 638,000 MT, 20 percent lower than the previous year. Post forecasts production for 2002/03 at 606,000 MT, a fall of around 5 percent and in line with the anticipated fall in planted area. Post forecasts exports to fall by 16 percent in 2002/03 in response to lower production and stock levels.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

The 2001/02 Australian cotton crop is estimated at 638,000 MT, 20 percent lower than the previous year. Lower production was driven by a 25 percent reduction in harvested area to an estimated 404,000 hectares as low prices at time of planting significantly reduced planted area.

Cooler conditions early in the season put the 2001/02 crop around three weeks behind average. However, drier and warmer conditions later in the season provided an ideal finish. Low insect pressure throughout the season also improved productivity with some industry sources quoting chemical usage at around half of the previous year.

Cotton production for the 2002/03 season is forecast at 606,000 MT, down five percent on the previous year and in line with ABARE's March forecast. This forecast assumes that yield remains unchanged and planted area falls around five percent. Low prices and a poor outlook for irrigation water availability are the main factors for the reduction in planted area. This forecast assumes a return to average weather conditions both in the lead up to planting and throughout the growing season. However, industry sources remain skeptical suggesting that some regions will suffer falls in production of up to 50 percent.

The longer term forecast, as reported by ABARE, is for Australian cotton production to bounce back to 718 TMT in 2003/04 with a return to average weather conditions and average irrigation water allocations. Production is expected to steadily increase reaching 781,000 MT by 2006/2007. This forecast is heavily dependant on the expected improvement in world cotton prices and average weather conditions.

Export figures for 2000/01 indicate that exports of cotton finished nearly 22 percent higher at 850 TMT, compared to the previous year. Record production for 2000/01, combined with high production and high ending stocks for the previous year are believed to be the responsible for the significant increase in exports.

Export figures for the first eight months of 2001/02 indicate that exports for this period have decreased by 11 percent, compared to the same period in the previous year. Export tonnages during this period fell for Indonesia, Japan and Thailand. The Republic of Korea represented the only increase in the top four export destinations. Post forecasts total exports for 2001/02 to fall 14 percent in line with year-to-date figures.

Post forecasts exports for 2002/03 to fall by 16 percent to 610 TMT. This forecasts is in line with lower forecast production for 2002/03 and an estimated fall in ending stocks for the previous year.

Cotton

Production

PSD Table						
Country	Australia					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	0	0	0	0	0	0
Area Harvested	505000	504000	420000	404000	0	383000
Beginning Stocks	502731	502731	456137	444953	470289	351067
Production	805588	794000	653180	638000	0	606000
Imports	0	399	0	291	0	400
TOTAL SUPPLY	1308319	1297130	1109317	1083244	470289	957467
Exports	850004	850000	642293	730000	0	610000
USE Dom. Consumption	38102	38102	32659	38102	0	38102
Loss Dom. Consumption	-35925	-35925	-35925	-35925	0	-35925
TOTAL Dom. Consumption	2177	2177	-3266	2177	0	2177
Ending Stocks	456137	444953	470289	351067	0	345290
TOTAL DISTRIBUTION	1308318	1297130	1109316	1083244	0	957467

General

The 2001/02 Australian cotton crop is estimated at 638,000 MT, 20 percent lower than the previous year. Lower production was driven by a 25 percent reduction in harvested area to an estimated 404,000 hectares as low prices at time of planting significantly reduced planted area.

Cooler conditions early in the season put the 2001/02 crop around three weeks behind average. However, drier and warmer conditions later in the season provided an ideal finish. Low insect pressure throughout the season also improved productivity with some industry sources quoting chemical usage at around half of the previous year.

Cotton production for the 2002/03 season is forecast at 606,000 MT, down five percent on the previous year and in line with ABARE's March forecast. This forecast assumes that yield remains unchanged and planted area falls around five percent. Low prices and a poor outlook for irrigation water availability are the main factors for the reduction in planted area. This forecast assumes a return to average weather conditions both in the lead up to planting and throughout the growing season. However, industry sources remain skeptical suggesting that some regions will suffer falls in production of up to 50 percent.

Currently, many of Australia's cotton growing regions are facing drought conditions. Although planting for the 2002/03 crop will not begin for many months, catchment areas are also experiencing dry conditions and the outlook for availability of irrigation water for the 2002/03 season is described as poor. Industry sources suggest that if conditions do not improve before planting time, some regions will not have enough irrigation water to plant an average crop.

The longer term forecast, as reported by ABARE, is for Australian cotton production to bounce back to 718 TMT in 2003/04 with a return to average weather conditions and average irrigation water allocations. Production is expected to steadily increase reaching 781,000 MT by 2006/2007. This forecast is heavily dependant on the expected improvement in world cotton prices and average weather conditions.

Weather

Low prices, dry conditions and a poor outlook for irrigation water availability for some regions early in the season combined to reduce plantings of cotton. Although some producers switched plantings to corn and sorghum, post believes this was not wide spread.

Much of inland Australia experienced cooler than average weather conditions early in the 2001/02 season. This dramatically slowed growth and put the crop around three weeks behind normal. However, warmer and drier conditions later in the season allowed yields to recover. It has also been suggested by some industry sources that the combination of these conditions greatly reduced insect pressure on the crop.

Post has assumed average weather conditions for the 2002/03 season. However, it should be noted that the Australian Bureau of Meteorology (BOM) has forecast a significant increase in the probability of below average rainfall. With many of the cotton growing regions either in drought or facing drought conditions, reports of drier than average conditions over the coming months have many industry sources anticipating a disastrous 2002/03 season.

Crop Area

Total area of cotton planted in Australia is typically driven by both soil moisture and irrigation water availability at time of planting, as well as the general price outlook for the upcoming season. Dryland plantings are most variable with farmers rapidly expanding area when prices are strong and soil moisture is good.

Environmental issues have grown in importance in recent times. Governments at all levels have tightened regulations in an effort to protect the environment. This has affected many aspects of cotton production including chemical application, genetic modification and water usage. Water usage is described by industry sources as the most fundamental constraint to the area of crop planted each year. Recent regulatory changes have attempted to limit the amount of water used for irrigation in order to improve river flows for environmental reasons.

Future expansion of cotton production on a large scale will be limited to valleys that have not yet reached their full development potential, such as the Lachlan/Murrumbidgee valley in N.S.W. where cotton production is a relatively new enterprise and the Ord River in Western Australia (WA).

The Ord River irrigation scheme in Western Australia currently comprises around 11,500 hectares of farmable land with cotton grown on an experimental basis. The introduction of GM cotton combined with plans to increase the existing irrigated area by 43,000 hectares raised hopes that cotton may be grown on a commercial scale. However, due to the breakdown of commercial arrangements required to expand the scheme and the current low prices received for cotton, post does not anticipate significant increases in cotton production from this region for the foreseeable future.

The following table gives area harvested ('000 ha) for cotton in Australia.

Year (a)	New South Wales	Queensland	Australia
1990/91	197.0	73.0	270.0
1991/92	207.5	74.1	281.6
1992/93	204.0	66.0	262.0
1993/94	181.9	82.5	264.4
1994/95	127.1	94.4	221.5
1995/96	186.0	118.0	304.0
1996/97	290.2	118.3	408.5
1997/98	299.0	139.0	438.0
1998/99	382.0	170.0	552.0
1999/2000 (p)	313.0	151.0	464.0
2000/2001 (s)	322.2	182.1	504.3
2001/02 (f)	N/A	N/A	400.0

(a)Crop year (August-July). (p) Preliminary. (s) Estimated. (f) Forecast. Note: Table does not include the small amounts of cotton grown in WA. SOURCE: Australian Bureau of Agricultural & Resource Economics.

Inputs

In 1994, The Council of Australian Government (COAG), representing the Federal Government and all State Governments and Territories, reached agreement on water management policy for the Murray-Darling Basin. The agreement has numerous recommendations regarding water usage with a key recommendation to cap water use at the levels reached in 1994. State Governments were to develop their own water regulations within the COAG Agreement. N.S.W. (where around two thirds of Australia's cotton is grown), is in the process of developing new legislation which industry sources say may be formalized by the end of CY 2002. This new legislation is expected to: formally recognize the concept of "environmental flows"; allow for freer trade of water rights between farmers in the same catchment area; and, in some instances, allow water rights trade between farmers in different catchment areas. Queensland has yet to set the cap on water use within its borders.

Commonwealth and State Government water reforms include additional cost recovery in water pricing and more efficient use of water. This will limit the expansion of irrigated cotton plantings. Future expansion is likely to be at the expense of existing irrigated crops. Increases in plantings may be possible if water is used more efficiently. Some improvement in cotton yields is projected as growers employ more efficient agronomic practices and use improved plant varieties.

Yields

Post puts average yield at 1.58 MT/Ha for 2001/02, only slightly higher than the previous year. The 2001/02 crop experienced a difficult start to the season with cooler than average conditions slowing growth and leaving some crops susceptible to pests and diseases. However, warmer and drier conditions mid to late season improved growth with industry sources describing this as the "perfect finish."

Post forecasts put yield for 2002/03 at 1.58 MT/Ha, unchanged from the estimate for the previous year. Reduced irrigation water allocations are expected to be balanced by a lower proportion of the lower yielding dryland cotton.

Crop Quality

The 2001/02 crop generally experienced excellent growing conditions toward the end of the season allowing for a relatively dry harvest. Industry sources describe quality as above average with little or no rain damage.

Cross Commodity Developments

Although, cotton producers have experienced very low prices in Australia in recent times, industry sources suggest there has been a reluctance among cotton growers to switch to other crops. Industry sources that operate in areas where cotton is a relatively new crop have reported significant areas of both sorghum and corn being planted instead of cotton where irrigation water is available. However, anecdotal evidence suggests the more traditional irrigated cotton growing areas have not switched to other crops and have either left land fallow or planted winter crops that use less water.

Post anticipates that with lower water availability expected in 2002/03, more cotton land will be left either fallow or planted to winter crops with a slightly higher percentage being planted to corn or sorghum.

Consumption

Utilization Patterns

More than 90 percent of Australia's cotton production is exported each year. The remainder is processed by Australia's five spinners.

Prices

Returns to the Australian cotton crop are heavily influenced by the Australian dollar exchange rate. During the 2001 Calendar Year (CY) the A\$/US\$ exchange rate fluctuated between US\$0.50 and US\$0.55. More recently, the \$A has strengthened to just under US\$0.57 and is expected to continue to strengthen in the short term. Post anticipates that this will continue to place downward pressure on prices received by Australian producers.

The following table gives monthly prices for Australian cotton

	2000		2001		2002	
	Cotlook USc/lb	Aust. Ac/kg	Cotlook USc/lb	Aust. Ac/kg	Cotlook USc/lb	Aust Ac/kg
January	47.60	184.00	64.22	265.00	43.42	185.00
February	53.85	194.00	60.40	250.00	42.81	182.00
March	57.40	197.00	54.56	226.00	42.04	179.00
April	58.70	205.00	51.16	214.00	41.38	170.00
May	65.50	211.00	49.83	209.00	39.35	N/A
June	59.47	202.00	47.46	199.00		
July	58.38	206.00	45.57	195.00		
August	60.86	209.00	43.31	185.00		
September	61.65	225.00	41.26	177.00		
October	60.90	237.00	37.22	160.00		
November	63.98	243.00	38.04	164.00		
December	65.87	238.00	42.87	185.00		

NOTE: Averages of daily quotations of Cotlook "A" Index. Australian prices quoted are equivalent to 'in store' prices - that is, Cotlook prices in USc/lb to which freight differentials have been added, then converted to Australian currency, with "into store" charges added. Prices approximate import parity prices.

SOURCE: Australian Bureau of Agricultural & Resource Economics.

Trade

Import Trade Matrix			
Country	Australia		
Commodity	Cotton		
Time period	Yr End July	Units:	MT
Imports for:	2001		2002
U.S.	28	U.S.	12
Others		Others	
India	128	Indonesia	127
Indonesia	121	India	48
Belgium	23	Malaysia	27
Hungary	1	France	14
Switzerland	1	Rep of Korea	1
Total for Others	274		217
Others not Listed	97		0
Grand Total	399		229

(NB. 2002 figures are partial year Aug 01 - Mar 02)

Export Trade Matrix			
Country	Australia		
Commodity	Cotton		
Time period	Yr End Jul	Units:	MT
Exports for:	2001		2002
U.S.	392	U.S.	0
Others		Others	
Indonesia	225016	Indonesia	112052
Japan	141003	Japan	76193
Thailand	116440	Rep of Korea	49755
Rep of Korea	81258	Thailand	44687
India	68690	India	34955
Pakistan	40371	Italy	17127
Taiwan	32553	Hong Kong	14373
Italy	27755	Pakistan	13526
Bangladesh	17982	China	10057
Hong Kong	15165	Taiwan	9864
Total for Others	766233		382589
Others not Listed	83381		39320
Grand Total	850006		421909

(NB. 2002 figures are partial year Aug 01 - Mar 02)

General

Export figures for 2000/01 indicate that exports of cotton finished nearly 22 percent higher at 850 TMT, compared to the previous year. Record production for 2000/01, combined with high production and high ending stocks for the previous year are believed to be the responsible for the significant increase in exports.

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Policy

Production Policy

The Cotton Research and Development Corporation was established in 1990 and is the major funding body for cotton research and development. The vast majority of the Corporation's research funds are invested in the areas of crop protection and sustainable farming practices, such as reducing chemical usage, and in developing new varieties. Growers have contributed A\$1.75 per bale as a research levy since 1991/92. The Australian Government provides funds on a dollar for dollar basis for research and development up to 0.5 percent of the gross value of production.

The following table lists industry and government contributions to cotton research and development.

	Industry Contributions A\$	Government Contributions A\$
1991/92	3,776,000	2,488,000
1992/93	3,892,486	2,217,569
1993/94	2,565,529	2,927,564
1994/95	2,128,593	2,873,714
1995/96	2,901,581	3,204,647
1996/97	4,717,809	2,741,213
1997/98	5,477,692	4,848,719
1998/99	4,801,679	5,668,875
1999/2000	5,356,735	5,809,540
2000/01	6,929,850	6,773,753

Source: Cotton Research & Development Corporation.

In recent years there have been increasing environmental concerns in Australia. The cotton industry has responded with the introduction of a Best Management Practices (BMP) plan. The BMP program revolves around changing farming operations to improve environmental performance. The Good Neighbors Program was also introduced to improve environmental efforts and community relationships. The Good Neighbors Program is designed to encourage all growers to adopt BMP. The importance of the program was highlighted by the fact that it was launched by the N.S.W. and Queensland Premiers and the Federal Minister for Agriculture, Fisheries and Forestry.

The Australian cotton industry planted the first Genetically Modified (GM) cotton known as Ingard during 1996/97. This variety helps control insect pests and reduces chemical usage. Around 30,000 ha, or around eight percent of total plantings, were sown in 1996/97. However, this area has grown dramatically in recent times. In 2000/01, around 30 percent of total plantings or approximately 145,000 ha was sown to GM cotton. Government regulations specify that a maximum of 30 percent of the total acreage can be planted to Ingard which was achieved in 2000/01.

In 2000/01 after three years of mixed results, new varieties of Bt cotton were released that provided improved efficacy against pests greatly improving the benefit of GM crops for Australian producers.

Roundup Ready Cotton is relatively new to Australia and provides a certain level of resistance to non-residual herbicides such as glyphosate. These chemicals are safer to use and environmentally more friendly as well as being less expensive and generally simplify weed control. Roundup ready cotton was produced commercially for the first time in Australia in 2000/01 with industry sources indicating plantings of around 10,000 Ha. Industry sources indicate that subsequent interest amongst producers has been high and plantings increased dramatically in 2001/02.

Post anticipates the two gene cotton variety known as "twinguard" will be grown on a trial basis in 2002/03 and could be grown commercially as early as 2003/04. Industry sources believe that this will have wide ranging implications for the industry as a whole. This variety is expected to have much greater efficacy in controlling pests, and more importantly is expected to be far more effective in curbing pest resistance.

Tariff Changes

Cotton is imported into Australia free of tariff.

Non-Tariff Barriers

Raw cotton bales must be compressed (350 kg/sq meter) or fumigated with methyl bromide (40 grams at 21 deg C for 24 hrs). Imports must be delivered to a processor or to a warehouse. Packaging must be burnt or treated. No seed is permitted in raw cotton imports.

Marketing

Marketing Channels

The Australian Cotton Foundation (ACF) was set up in 1972 and has the following functions:

- S** act as the cotton industry's representative to the National Farmers' Federation;
- S** promote the Australian cotton industry;
- S** public and community relations, including media and government representation, industry and community liaison;
- S** promotion of cotton and the cotton industry.

The ACF launched the "Cotton Mark" in March 1991. The "Cotton Mark" is the logo for Australian cotton and is designed to upgrade the industry's image. The mark was designed to meet the changing demands and needs of the fashion and textile industry. The Cotton Mark is a form of quality assurance and can only be used on products that the ACF approves as of worthy quality. The goods must be made of at least 50 percent Australian cotton. Major clothing design labels are supporting the idea. Consumers are able to identify products as made of quality Australian cotton.

The ACF is currently funded by A\$1.75 per bale levy.